



Money

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COVERSTORY

Deregulation juices utilities competition

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'It's the wave
of the future
coming at
us pretty fast'

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USA TODAY

Ring. Ring. Another dinner has been interrupted, but it's not a telemarketing call from a bank or phone company. It's an electric utility seeking customers.

The business of providing and selling electricity — the USA's one remaining monopoly industry — is being forced into the harsh world of competition.

Twenty states have plans under way to open business to competition. Another 24 have plans under review by legislatures or regulators. Two states — New Hampshire and Illinois — have launched pilot projects. California and Massachusetts are preparing to launch pilot projects.

"This is the last industrial monopoly in the USA, and it's going down," says Bill Wicker of the Department of Energy. "Deregulation has come to the railroads, the airlines, telecommunications and banking. Now it's electricity's turn, and everybody uses electricity. It's the story of the '90s."

Advocates say competition could save residential electricity users nearly \$20 a month off the typical bill. Industrial users say they'll save billions, making them more cost-competitive against global rivals. But many of the nation's largest utilities, which stand to lose billions of dollars in revenue, are running scared as regulators and politicians desperately seek ways to speed deregulation.

A 15-state power outage in the West two weeks ago has sparked a debate about the potential impact of deregulation on the world's most reliable electricity system. But in some other states, electricity users are already enjoying the benefits of deregulation.

In New Hampshire, customers who switched received bird feeders, light bulbs or a month's free service. In Illinois, a utility has offered a system that allows customers to

turn off major appliances by phone during hours that electricity usage peaks and rates are highest.

For the first time, energy companies from anywhere in the USA were allowed to compete with local utilities for business in New Hampshire.

Convinced deregulation is inevitable, dozens of suppliers poured offers

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on the 17,000 residents and business owners participating in the two-year pilot. Lorrie Carey of Marshall's Flowers & Gifts in Penacook, N.H., says she received about 30 solicitations from energy companies. "As the weeks went by, the rates got lower and lower and more services were offered," she says. Sane companies sent gifts. "One company sent us a little tree," she says. "It was a nice environmental touch."

Carey eventually went with an outside supplier named Synergy, and she expects her electricity bill to drop about 10%. Just as important is the new supplier's willingness to listen to her concerns. "It's nice that they care about their customers," she says. "Now utilities realize they're in the business of providing to us, and we're not there just for their whims."

In Peterborough, N.H., "we began to see an incredible flood of glossy brochures, samples and kits," says Charles Leedham, a selectman who negotiated with suppliers on behalf of the town's residents. He and the town's two other selectmen recommended Enron, a supplier based in Houston, although townspeople are free to pick any supplier they want. Leedham estimates residents' electric bills will drop 15% to 20%.

Enron has agreed to set up an office in Peterborough for new customers, Leedham says. The company also plans to donate \$25,000 to a downtown development project.

"Another company offered us \$10,000 for Downtown 2000," Leedham says. "Another offered to loan us an electric bus for a year. We don't have mass transit. We're a town of 5,200 people."

But Enron's donation led a state legislator to accuse Enron of illegal inducements to influence the selectmen's decision. Leedham dismisses the accusation. Enron won because it offered the lowest rates, he says.

Change for utilities

That's a big change from the current system. For decades, utility companies controlled the three crucial aspects of providing electricity to the public: generation, transmission and delivery. For safety and reliability, the industry was more closely regulated by the federal government than probably any other, says Charles Curtis, deputy secretary of the Department of Energy.

For example, the federal government requires utilities to be ready to oiler backup power when other utilities suffer outages. Would that continue in a totally for-profit system?

No, deregulation critics argue. They point to the 15-state power outage in the West two weeks ago that affected 1.5 million customers. The outage caused traffic tie-ups, disruptions of train service, loss of air conditioning and telephone service, and interference with water supplies.

"It's a legitimate issue," Curtis says. "But it would be a mistake to look at what happened out West and conclude that competition is dangerous."

A generation ago, industrial users began clamoring for deregulation. They successfully argued that technological advances expanded who could safely and reliably transmit electricity. Deregulation of electricity to wholesale users began two years ago. Last month, the Federal Electricity Regulatory Commission (FERC) finished a two-year project that concluded deregulation could be expanded to the retail market. The big question now is how.

Several bills have been introduced in Congress that map out approaches.

The most recent one was introduced last week by Rep. Dan Schaefer, R-Colo. That bill would require utilities to give customers a choice of providers by Dec. 15, 2000. The bill would leave the details to the states but would require FERC to impose a competitive plan if any state does not act.

There have been nibbles at doing something since '84 and finally a decision has to be made," Schaefer says. "Look, we got through telecommunications (deregulation). Let's tackle the last surviving monopoly."

Some utilities eager

Despite the industry's general opposition to Schaefer's bill, some utilities eager to expand their markets have urged that competitive barriers be removed as quickly as possible.

In Illinois, a few rural towns are also getting a taste of free-market electricity. Under a five-year pilot program launched by Central Illinois Light Co. (CILCO), a group of customers can choose from several outside suppliers, who will pay CILCO to distribute the electricity. The group

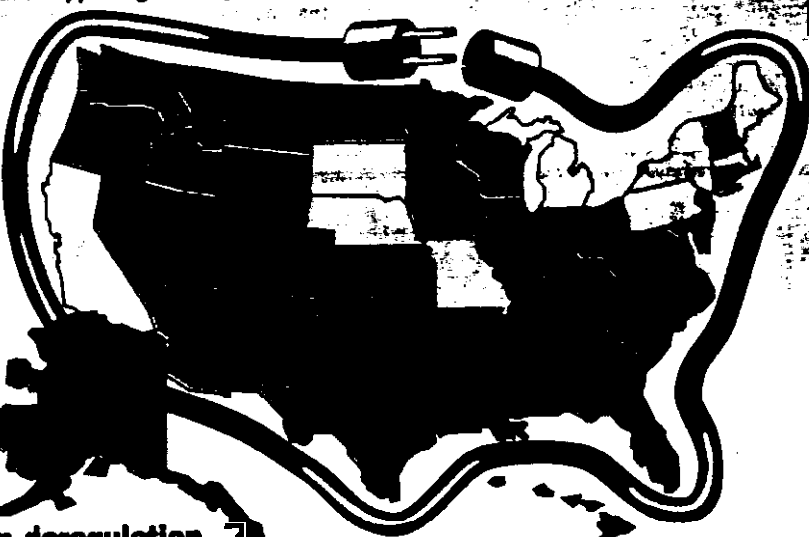
includes Northwoods Mall in Peoria, where a J.C. Penney's store signed a one-year deal to buy its power from Wisconsin Electric. The utility is willing to give up some of its customers to promote deregulation, says CILCO spokesman Greg Woith. "Competition is inevitable in the utility industry," he says. "Our philosophy is to gain experience for ourselves and our customers and to demonstrate that this stuff will work."

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High-stakes power play

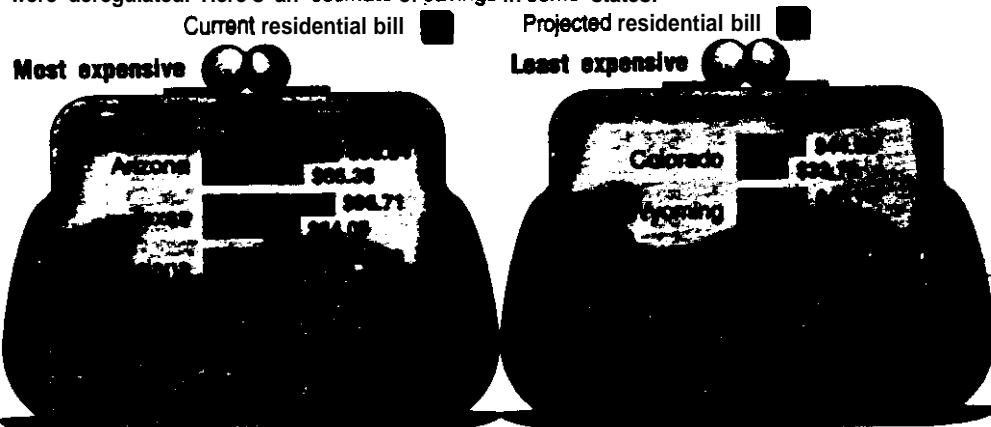
A monopoly of major utilities controls who produces and delivers the nation's electricity and at what price. But deregulation is changing that — faster in some states than in others. Here's the breakdown of what's happening state by state:

- ☒ Pilot projects launched
- ☒ Projects scheduled to be launched
- ☒ Proposals under review and supported by regulators, utilities or legislatures
- ☒ Proposals under review by regulators, utilities or legislatures
- ☐ No activity



Savings from deregulation

Residential electricity costs vary widely from state to state. But costs would drop if electricity were deregulated. Here's an estimate of savings in some states:



Competition equals savings

Electric costs vary widely from state to state. If utilities were deregulated, electric customers would save about 26% from their 1994 bills, estimates the Citizens for a Sound Economy, a research group.

State	1994 bill	Proj. bill	State	1994 bill	Proj. bill	State	1994 bill	Proj. bill
Alabama	\$73.73	\$54.46	Kentucky	\$59.19	\$43.72	North Dakota	\$63.15	\$44.84
Alaska	\$77.19	\$57.02	Louisiana	\$84.89	\$62.70	Ohio	\$67.96	\$50.20
Arizona	\$98.84	\$54.36	Maine	\$83.70	\$47.06	Oklahoma	\$67.08	\$49.45
Arkansas	\$73.77	\$54.49	Maryland	\$81.79	\$60.41	Oregon	\$57.48	\$42.46
California	\$60.18	\$43.45	Massachusetts	\$91.90	\$45.72	Pennsylvania	\$70.20	\$51.84
Colorado	\$44.93	\$33.19	Michigan	\$49.09	\$36.26	Rhode Island	\$58.19	\$42.98
Connecticut	\$78.85	\$58.24	Minnesota	\$51.17	\$37.80	South Carolina	\$60.90	\$39.76
Dist. of Columbia	\$50.68	\$37.43	Mississippi	\$76.02	\$56.15	South Dakota	\$62.33	\$46.04
Delaware	\$75.73	\$55.94	Missouri	\$65.16	\$48.13	Tennessee	\$75.62	\$55.86
Florida	\$82.42	\$60.88	Montana	\$48.66	\$35.94	Texas	\$86.71	\$64.05
Georgia	\$73.17	\$54.06	Nebraska	\$57.37	\$42.38	Utah	\$48.91	\$34.21
Hawaii	\$76.78	\$56.71	Nevada	\$69.70	\$51.48	Vermont	\$62.25	\$45.98
Idaho	\$58.78	\$43.42	New Hampshire	\$73.51	\$54.30	Virginia	\$84.12	\$62.14
Illinois	\$65.77	\$48.58	New Jersey	\$71.56	\$52.86	Washington	\$56.37	\$41.64
Indiana	\$81.20	\$45.20	New Mexico	\$48.14	\$35.56	West Virginia	\$58.89	\$43.50
Iowa	\$63.82	\$47.14	New York	\$70.41	\$52.01	Wisconsin	\$49.17	\$36.32
Kansas	\$62.66	\$46.29	North Carolina	\$82.95	\$61.27	Wyoming	\$48.74	\$33.79
						U.S. average	\$68.86	\$50.86

Source: Energy Department, USA TODAY research by Nadja Rogoszynski and Terrell Work

There are some challenges. Will deregulation ensure that all consumers — big and small business, inner-city and rural residents — get the same level of service and enjoy the same degree of price reductions from a deregulated industry? Will deregulation ensure that companies continue to invest in environmentally safe alternatives to current generation techniques?

The answer isn't clear yet. One thing's for sure though.

"It's the wave of the future and the future is coming at us pretty fast," Leedham says. But he says the brochures that littered his living room this spring offer a glimpse of what will happen in 1998, when the entire

state is scheduled to be deregulated.

"With 400,000 residences and 100,000 businesses, suddenly there are going to be sharks circling from everywhere in the country."